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C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000408

NOFORN
SIPDIS

DEPT PASS USAID/AFR/SD FOR CURTIS, ATWOOD AND SCHLAGENHAUF
DEPT PASS TO USTD-PAUL MARIN, EXIM-JRICHTER
DEPT PASS TO OPIC FOR BARBARA GIBIAN AND STEVEN SMITH
DEPT PASS USTR FOR AGAMA
JOHANNESBURG FOR NAGY
USDOE FOR GEARGE PERSON
TREASURY FOR TONY IERONIMO, ADAM BARCAN, SOLOMAN, RITTERHOFF

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TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [ETRD](#) [PGOV](#) [NI](#)
SUBJECT: (C) CHEVRON MD DISCUSSES THE STATUS OF THE
PROPOSED PETROLEUM INDUSTRY BILL

REF: A. ABUJA 1907
[1](#)B. ABUJA 1836
[1](#)C. ABUJA 1764
[1](#)D. LAGOS 393
[1](#)E. LAGOS 373

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Classified By: A/CG J. Richard Walsh for reasons 1.4 (b & d).

SUMMARY

[1](#)1. (C) Chevron MD in Nigeria told Lagos officers that the proposed Petroleum Industry Bill represents "democracy" for more players but doubts it will lead to "good governance." He sees the bill becoming law this year. Key concerns for Chevron are ensuring "contract sanctity" and managing the seemingly inevitable transition to implement the bill into law, a process that could be disruptive within Nigeria's oil sector for the next 2-3 years. He said another issue is what will Nigeria's "oil government" do to develop the natural gas market and infrastructure. The major oil companies agree on "80 percent of the issues" in the face of pressure from this legislation. The MD viewed the recent Chinese bid for offshore blocks as a GON ploy to exact higher fees from existing holders Chevron and Exxon. The MD felt the USG could help now by raising awareness within the GON of the PIB's shortcomings and urge the use of petroleum and budget experts when implementing it into law. END SUMMARY.

CHEVRON PREDICTS PIB PASSAGE SOON

[1](#)2. (C) Chevron Managing Director for Nigeria Andrew Fawthrop views the proposed Petroleum Industry Bill (PIB) as good for democracy in Nigeria but not governance, and he expects the National Assembly to pass it into law by year-end. Fawthrop met with ConGen Lagos Pol/Chief and Econoff October 21, and said with an air of inevitability that the international oil companies (IOCs), service providers, and other stakeholders should prepare to implement PIB mandates soon. This could

lead some, including Chevron, to downgrade investment or operations in Nigeria and seek new exploration and production (E&P) opportunities elsewhere. GON revenues and Nigerians will suffer from such a move, he predicted.

ENGAGEMENT WITH AND OUTSIDE THE NATIONAL ASSEMBLY

13. (C) Fawthrop recalled his recent meetings in Abuja with GON officials and IMF representatives who offered optimistic PIB assessments by noting that "some of the details do not allow the (dire) headlines to be achieved." The "democratization" of Nigeria's oil sector, according to Fawthrop, stems from so many players angling for their cut of an "increasingly smaller pie" here. He believes President Yar'Adua is "extremely smart," but fears he is not getting key information on the PIB and ideas for production and/or fiscal reform. According to Fawthrop, Yar'Adua and Vice President Goodluck Jonathan now liken the PIB to a post-Amnesty "silver bullet," with a 10 percent stream to local communities. Other Abuja actors, which Chevron and others have tried to lobby, include the Ministry of Finance, the Ministry of Petroleum Resources, the Nigerian National Petroleum Corporation (NNPC), and members of the National Assembly. They all have their slants on, and want different slices of, the prospective PIB.

PROBLEMS WITH THE PROPOSED BILL

14. (C) One problem with the PIB, Fawthrop allowed, is how to define "downstream" communities that might benefit from the

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new 10 percent subsidy. Do you include field, pipeline, and terminal as a whole, or segregate these three distinct units?

The PIB will also generate new problems with newly-foreseen players and producers. How will they adapt and integrate with an existing, larger joint venture partner? How will the NNPC transform its role as largely a regulator into that of producer and operator? Fawthrop said Venezuela's state company PDVSA had some experience in production which NNPC lacks. This will be disruptive and cause "gridlock" within Nigeria's oil sector for at least 2-3 years, as the IOCs, Nigerian companies, and the GON adjust to new petroleum production and fiscal regimes.

15. (C) Furthermore, what about gas? In Fawthrop's view, Nigerian has only "an oil government" without the vision and expertise to harness the country's considerable natural gas potential that is wasted via flaring. Yet, development of the gas sector is tricky and time-consuming, and beholden to long-term project planning, securing reliable markets, and a willingness to forego short-term gains. All this encourages Nigeria's political elite to favor oil over gas.

INDUSTRY COHESION AND COMPETITIVENESS

16. (C) Fawthrop said the IOCs generally work together "on 80 percent of the issues" in the face of PIB pressures. The IOCs had a recent conclave in London to strategize on next steps towards the PIB, and concluded that the best approach now is to educate the GON and other stakeholders on the long-term perils of an ill-conceived and poorly executed PIB.

POTENTIAL BENEFITS

17. (C) Fawthrop said "democracy trumps governance" in Nigeria in the sense that more small Nigerian production and

service operators will emerge to take advantage of PIB-generated opportunities. He said Chevron is willing to work with these Nigerian firms, but only if a transparent and effective regulatory regime is a PIB by-product. Fawthrop drew a parallel to the many smaller U.S. oil exploration and production entities like Apache that flowered to run smaller fields in the Gulf of Mexico 20 years ago, while the bigger ones went to deeper water. This could be in the offing for Nigeria, but only if corruption does not crowd out proper reform and "contract sanctity." (NOTE: Chevron is already in agreement to purchase the production of Brittania-U, a recently formed Nigerian oil company that has taken over a marginal Chevron field. END NOTE.)

CHINA'S INTEREST IN NIGERIA'S OIL BLOCKS

18. (C) Fawthrop confirmed China's interest in oil blocks as evidence of Chevron's "contract sanctity" concern. Both Chevron and Exxon renewed leases 18 months ago for 20 years. The GON allowed China to propose new terms for these leases and in turn asked for more money from Chevron and Exxon (Reftel E). Fawthrop dismissed China's actions as a negotiating ploy for the GON to get more money out of the IOCs. He said "projects cannot last as long as the existing parties and officials." The longest view taken in Nigeria is 18 months, or until the next election.

CHEVRON'S PRODUCTION AND PLANS

19. (C) Chevron's production consists of two-thirds off-shore, mainly from the Agbami field, and one-third on-shore, from the Escravos field, per Fawthrop. Agbami

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produces 250,000 barrels per day while Escravos produces 330,000. Total capacity between these fields should surpass 600,000 barrels sometime next month. The Pennington FPSO, which produces 50,000 barrels per day, was not mentioned. Chevron's total output could be in excess of 750,000 barrels per day based on various estimates. Fawthrop suggested that Chevron would leave this production and not invest in it if the PIB is passed. Chevron's 2 billion barrel Agbami field began production in 2007 and has pumped around 14 percent or about 275 million barrels. Even with the restrictive PIB terms of a 97 percent GON take, Chevron would stand to earn almost USD 4 billion in the next 5 years from this one field.

In today's environment, Chevron could make as much as USD 9 billion in five years from Agbami. These figures were calculated assuming oil at USD 70 per barrel.

LOOKING AHEAD

110. (C) Fawthrop believes the PIB figures prominently in the GON's post-Niger Delta amnesty calculus, but he also promoted his company's role as a good corporate citizen in Nigeria. Nigerian states and communities come regularly to Chevron for contributions to social development projects, and Fawthrop said Chevron has a long track record of support. If an onerous PIB drives Chevron and other majors away or into hibernation, he warned that this would ultimately hurt communities in the Delta.

USG ROLE: AWARENESS, CAPACITY BUILDING, AND ADVOCACY

111. (C) Fawthrop stressed that the USG can be most helpful by continuing its dialogue with GON decision-makers and politicians. He urged the Mission to raise awareness within the GON and encourage the use of petroleum and financial

sector experts in enacting and implementing the PIB. He requested the USG to do whatever it could to enhance capacity building. Ongoing USG engagement with the GON will be crucial, Fawthorp said, and there may be a need for more forceful USG commercial advocacy in the future.

¶12. (U) ConGen Lagos coordinated this telegram with Embassy Abuja.
BLAIR